

## **NATURAL GAS COMMODITY PRICE TASK FORCE ISSUES FINAL REPORT**

Jefferson City (August 29, 2001)---The Natural Gas Commodity Price Task Force has issued its final report to the Missouri Public Service Commission. The nearly 100 page report contains a number of recommendations for Commission consideration.

The entire task force report can be viewed on the Public Service Commission's website at **<http://www.psc.state.mo.us/publications.asp>** under "Natural Gas".

"The final report is the end result of input received during a number of local public meetings held throughout Missouri as well as the many discussions and meetings held by task force members," stated Task Force Chairman Warren Wood. "One consistent message throughout the task force meetings," Wood stated, "was concern for the hardships of last winter on low and fixed income customers. The average residential natural gas consumer was impacted by heating bills that approximately doubled when compared to bills for the 1999-2000 winter heating season."

"In addition," Wood said, "there was also wide spread support for reducing the volatility of natural gas prices, even if a small premium may be paid to do so." Warren Wood is the Manager of the PSC's Energy Department.

The task force report will now be reviewed by the Commission. "We look forward to carefully reviewing and evaluating the recommendations offered by the task force," stated PSC Chairman Kelvin Simmons. "We wish to thank task force members and all who attended the local public meetings for valuable input."

The task force stated in its report: "The Missouri Public Service Commission's Natural Gas Commodity Price Task Force (Task Force) examined several means or mechanisms that may be used to mitigate large-scale swings in natural gas prices. Each mechanism may be desirable in certain circumstances, but each has unique risks and costs that require evaluation in each circumstance."

"The Task Force reached a consensus regarding the overall strategy of employing various mechanisms to mitigate and control upward gas price volatility. Our sense was that Local Distribution Companies (LDCs) in Missouri should be encouraged by the Commission and all other stakeholders to utilize various mitigation tools to balance market price risks, benefits, and price

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stability. LDCs should create a balanced portfolio of gas supply contracts with various price structures in an attempt to reduce, but not eliminate, market sensitive pricing. Part of a balanced portfolio may be over market at times and this is necessary to dampen price volatility. It is also recognized that gas price stability and especially limits to upward gas price spikes are desired and valued by many customers but may result in higher gas costs over the long-term due to the costs of hedging and fixed price contracts.”

A number of options for changing the current natural gas cost recovery process received broad support from task force members. One of these options deals specifically with ideas on how to address the needs of low and fixed income customers. A number of recommendations deal with the question of whether utilities should consider using fixed price contracts, call options, collars and natural gas storage as part of a prudent gas supply planning effort.

Properly structured incentive plans were also supported, as was the desire to expand the exchange of information from natural gas utilities to the PSC Staff and the Office of the Public Counsel on procurement plans and strategies. Support for changing PGA (Purchased Gas Adjustment) rates more frequently to better match market conditions was also noted. Ideas for encouraging energy efficiency programs were also received favorably.

The Task Force members represent a wide range of interest from the general public, Office of the Public Counsel, Department of Natural Resources Energy Center, natural gas investor-owned and municipal utilities, consultants and the Staff of the Missouri Public Service Commission.

**TASK FORCE BACKGROUND:** Price increases in the commodity cost of natural gas (the price of gas from wholesale suppliers) in the 2000-2001 winter resulted in significant increases in prices paid by customers of local natural gas distribution companies in Missouri. As a result, the Missouri Public Service Commission established a case on January 23, 2001, to investigate the process for the recovery of the natural gas commodity costs by local distribution companies from their customers.

The current process of company recovery of wholesale supplier charges was initiated through the Purchased Gas Adjustment (PGA) mechanism in the early 1960s. In 1997, in an effort to bring rate stability to Missouri consumers, the Commission approved agreements which reduced the number of annual filings by local natural gas companies to a maximum of three. In today’s more volatile, complex and competitive market, the Missouri Public Service Commission believed that it was an appropriate time to review the current process. The Commission determined that a task force would be created to investigate and discuss options on this issue.

